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**Sullivan Mining Group Ltd.
East Sullivan Mines Limited**

**Annual
Report
1971**

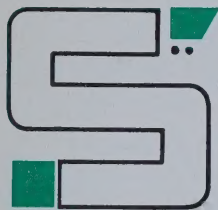




SOLBEC



NIGADOO


**Sullivan Mining Group
Ltd.**

and

**East Sullivan Mines
Limited**

	1971	1970	1969
	(in thousands)		
For the year			
Production	\$17,333	\$20,476	\$23,916
Net Earnings	2,180	5,603	5,916
Net Earnings per share	0.33¢	0.85¢	0.90¢
Net Dividends Paid	1,643	3,286	2,692
Exploration and research	1,296	2,002	1,123
(for new mines)			
Capital Expenditures	4,531	5,558	3,249
(development of new mines)			
Depreciation and amortization	2,552	1,617	2,222
At end of year			
Working Capital	9,469	12,660	16,944
Total assets	41,126	41,071	39,261

Les actionnaires qui
préfèreraient recevoir ce rapport
en français sont priés
de communiquer avec le
secrétaire de la compagnie.

During the past fiscal year your companies were sharply affected by a number of unfavorable economic conditions. The main causes of the decline in income, however, were reduced metal prices and the unpegging of the Canadian dollar.

Faced with this situation, your management concluded that it would be prudent and desirable that funds generated from operations be directed only to development projects and thus, regretfully, took the decision to suspend payment of dividends as of December, 1970. Despite the negative conditions mentioned, we have aggressively carried forward the various programs of mineral exploration and development.

Additional substantial funds have been invested in the D'Estrie and Weedon mines in the Eastern Townships of Quebec. During the past year the program of accelerated development at both mines has temporarily affected the grade of ore and rate of extraction. The directors are nevertheless confident that operations will be normalized during the course of the current fiscal year and that metal production will be significantly increased at these two mines. In the meantime, operations at the Cupra mine, also in the Eastern Townships, continue at a satisfactory level.

At the New Brunswick mine of Nigadoo River Mines Limited, where grade has always tended to be marginal, some difficulties and uncertainties persist. Management is doing its utmost to reduce operating costs during this very difficult period. However, it is possible that unless conditions change the decision may have to be made to close the mine for an indefinite period. This step would be taken only reluctantly and with the hope that general conditions would become more favorable in the future.

Efforts this year have been heavily concentrated on the Brunswick Tin Mines Limited property, in New Brunswick, with the programs of research on the metallurgy of the deposits actively pursued. An important point is that results of quantitative analysis work on part of one multi-mineral deposit more than confirm the findings of semi-quantitative analysis work done last year.

There is currently a drill-indicated ore reserve of 27 million tons grading 0.20% tungsten, 0.10% Molybdenum, 0.08% Bismuth, 0.04% Tin, 0.07% Copper, 0.33% Zinc, 0.09% Lead. Additional information on reserves is provided in the report of the exploration manager.

The program of metallurgical research commenced last year and expanded during the current year is giving encouraging results, even though the work is not yet complete nor the results definitive. This work is being conducted both at the Department of Energy, Mines and Resources in Ottawa and at laboratory facilities which are at the company's disposal in New Brunswick.

Your directors believe that the funds expended on Brunswick Tin Mines represent a most valuable investment in a project which has the potential of ensuring operating longevity and income benefits for your companies.

During the course of the year preliminary feasibility studies were completed on the Chester Mines Limited property by Wright Engineers Limited and the company's own geologists and engineers. Cost estimates were developed for various mining methods and concentrator size and ore treatment rates. Development of the property has been delayed,

EAST SULLIVAN MINES LIMITED and its subsidiary SULLIVAN MINING GROUP LTD.

To the Shareholders :

The combined profits of your respective companies amount to \$801,803 for the six-month period ended February 28, 1971. This is equal to \$0.12 per share and compares to \$0.42½ per share for the same period of 1970, (this amount being half of the annual net profit per share for the full 1969-1970 fiscal year).

The reduction in the net profits for the current period, compared to last year, is partially due to substantially lower price received for copper, an average of \$0.50 per pound compared to \$0.66 per pound a year ago. Overall production of copper was also lower: 6.6 million pounds compared to 7 million pounds in the six months ended February 28, 1970.

Another factor affecting net profits is that depreciation and amortization charges in the present period are 50% higher than the amount provided for the same period of last year.

The Sullivan mining group, since 1968, has been heavily engaged in the preparation of new mines for production: specifically the D'Estrle mine and the Weedon mine. At the same time efforts have been directed at developing the lower levels of the Cupra mine, continued development at the Nigadoo mine and in extensive evaluation studies and exploration at the Chester Mines Limited property and the very promising Brunswick Tin Mines Limited property.

In all these projects, approximately \$20 million has been ploughed back into underground development and construction of surface facilities. Investment of retained earnings on this scale can explain the reduction in working capital from the level of \$16 million in 1968 to the current level of \$9 million.

It should be emphasized, however, that once these programs of mine preparation currently underway are completed, an annual production rate of approximately 18 million pounds of copper can be foreseen.

It is the conviction of your directors that the benefits of these reinvestments will progressively become more evident during the coming years, and will be translated into increased cash flows and larger annual profits.

On behalf of the Boards of Directors
EAST SULLIVAN MINES LIMITED (N.P.L.)
SULLIVAN MINING GROUP LTD.

J. Jacques Beauchemin, President

Montreal, April 19, 1971.

COMBINED BALANCE SHEET

(SUBJECT TO YEAR END AUDIT)

	February 28 1971	Half Fiscal Year 1969-1970
ASSETS		
Current	\$ 9,993,588	\$15,899,429
Investments, at cost	6,608,782	4,376,740
Fixed	8,708,738	8,751,815
Other assets	14,891,993	11,138,140
	<u>\$40,203,101</u>	<u>\$40,166,124</u>

LIABILITIES

Current	\$ 985,940	\$ 1,097,398
Minority interests in subsidiary	9,110	103,501
Interest of the outside shareholders :		
Sullivan Mining Group Ltd. .	22,067,865	21,933,529
East Sullivan Mines Limited .	17,140,186	17,031,696
	<u>\$40,203,101</u>	<u>\$40,166,124</u>

COMBINED STATEMENT OF OPERATIONS

(SUBJECT TO YEAR END AUDIT)

	February 28 1971	Half Fiscal Year 1969-1970
Net Production*	\$ 4,751,205	\$ 6,600,346
Operating cost	3,236,846	3,335,759
Operating profit	1,514,359	3,264,587
Depreciation and amortization	1,088,389	711,694
Operating profit after depreciation and amortization	425,970	2,552,893
Investment and other income	403,719	401,696
	<u>829,689</u>	<u>2,954,589</u>
Provision for taxes and other expenses	63,620	159,234
	<u>766,069</u>	<u>2,795,355</u>

ADD :

Portion of loss of a subsidiary company applicable to minority interests	35,734	5,980
Net combined earnings	<u>\$ 801,803</u>	<u>\$ 2,801,335</u>

Interest of the outside shareholders in the above earnings : 3,725,000 shares of Sullivan Mining Group Ltd.	\$ 451,687	\$ 1,587,548
2,846,032 shares of East Sullivan Mines Limited	350,116	1,213,787
6,571,032 shares	<u>\$ 801,803</u>	<u>\$ 2,801,335</u>

Net effective earnings per share held by the outside shareholders ..	<u>\$ 0.12</u>	<u>\$ 0.42½</u>
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NOTES

The combined statement of operations for the six months ended February 28, 1971 compared to that of the half fiscal year 1969-1970 results from the combination of the net earnings of the following companies :

East Sullivan Mines Limited, Sullivan Mining Group Ltd., D'Estrle Mining Company Ltd., Weedon Mines Ltd., and Nigadoo River Mines Limited.

* Metals produced during the six months ended February 28, 1971 have been recorded, before cost of realization, at the following prices : copper — \$0.50/lb, zinc — \$0.14/lb, lead — \$0.12½/lb, cadmium — \$2.25/lb, bismuth — \$6.00/lb, gold — \$38.80/oz and silver — \$1.62/oz.

COMBINED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

(SUBJECT TO YEAR END AUDIT)

	February 28 1971	Half Fiscal Year 1969-1970
WORKING CAPITAL at beginning of year	<u>\$12,659,761</u>	<u>\$16,944,302</u>
SOURCE OF FUNDS : Net combined earnings for the period	801,803	2,801,335
Depreciation and amortization ..	1,088,389	711,694
Deferred expenses reclassified as a current asset	—	5,678
Prior years' income tax adjustment	14,374	(939)
	<u>1,904,566</u>	<u>3,517,768</u>

APPLICATION OF FUNDS :

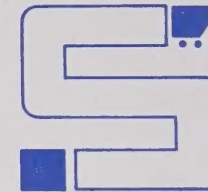
Dividends paid to outside shareholders	1,642,764	1,642,757
Outside exploration	223,377	71,886
Pre-production expenditures ...	2,370,021	2,085,759
Additions to fixed assets	273,421	529,839
Investments and advances to subsidiary and affiliated companies	1,015,718	1,292,783
Minority interests' share of the loss of a consolidated subsidiary	35,734	5,980
Reclassification of a long-term debt to current liabilities ...	—	10,738
Miscellaneous	(4,356)	20,297
	<u>5,556,679</u>	<u>5,660,039</u>

Decrease in working capital ...	<u>3,652,113</u>	<u>2,142,271</u>
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WORKING CAPITAL, end of period	<u>\$ 9,007,648</u>	<u>\$14,802,031</u>
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NOTE

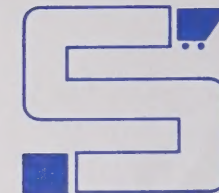
The combined statement of source and application of funds for the period ended February 28, 1971 compared to that of the half fiscal year 1969-1970 results from the combination of the following companies :
East Sullivan Mines Limited, Sullivan Mining Group Ltd., D'Estrle Mining Company Ltd., Weedon Mines Ltd. and Nigadoo River Mines Limited.



**Rapport
interiminaire
combiné
pour les six mois
terminés
le 28 Février
1971**

**EAST SULLIVAN MINES LIMITED
GROUPE MINIER SULLIVAN LTÉE**

2500 — 500 Place d'Armes, Montréal 126, Qué.



Combined Interim Report for the six months ended February 28 1971

EAST SULLIVAN MINES LIMITED
SULLIVAN MINING GROUP LTD.

2500 — 500 Place d'Armes, Montreal 126, Que.

EAST SULLIVAN MINES LIMITED et sa filiale GROUPE MINIER SULLIVAN LTÉE

Aux actionnaires,

Les profits combinés de vos compagnies s'élèvent à \$801,803, pour la période de six mois terminée le 28 février 1971, soit \$0.12 par action ce qui se compare à \$0.42½ pour la même période de 1970 (montant représentant la moitié des profits nets par action de l'année fiscale complète 1969-1970).

Les profits nets de la période écoulée, comparés à ceux de la même période l'an dernier, montrent une diminution qui est en partie due à la baisse du prix du cuivre, présentement à \$0.50 la livre comparativement à \$0.66 en 1970.

Il serait opportun de noter également que la dépréciation et l'amortissement pour la période actuelle sont presque 50% plus élevés que pour la période correspondante de l'année précédente. Notre production a été de 6.6 millions de livres de cuivre pour les six premiers mois de l'année courante alors qu'elle était de 7 millions de livres pour la période correspondante de 1970. Lorsque le programme de développement et de préparation actuellement en cours à vos mines sera complété, on prévoit une production possible d'environ 18 millions de livres de cuivre par année.

Le groupe minier Sullivan s'est occupé activement, surtout depuis 1968, du développement et de la préparation de nouvelles mines, plus particulièrement des mines d'Estrle et Weedon, ainsi que du développement des niveaux inférieurs à la mine Cupra, du développement à la mine Nigadoo et à des travaux d'exploration et d'évaluation à Chester Mines Limited et Brunswick Tin Mines Limited. Environ \$20 millions ont été réinvestis pour assurer ce programme de développement et d'expansion. On explique donc facilement la réduction du fonds de roulement au niveau actuel de \$9 millions, lequel était de l'ordre de \$16 millions en 1968.

Nous sommes confiants que les avantages de cette politique de réinvestissement seront de plus en plus apparents durant les prochaines années: les résultats se manifesteront par des profits annuels supérieurs et par un accroissement de la liquidité.

Sincèrement vôtre,

Au nom des conseils d'administration
EAST SULLIVAN MINES LIMITED (N.P.L.)
GROUPE MINIER SULLIVAN LTÉE

J. Jacques Beauchemin, président

Montréal, ce 19 avril 1971

ÉTAT COMBINÉ DU BILAN (SUJET À VÉRIFICATION DE FIN D'ANNÉE)

	28 février 1971	Moitié de l'année fiscale 1969-1970
ACTIF		
Disponibilités	\$ 9,993,588	\$15,899,429
Placements, au coûtant	6,608,782	4,376,740
Immobilisations	8,708,738	8,751,815
Autres actifs	14,891,993	11,138,140
	<u>\$40,203,101</u>	<u>\$40,166,124</u>

PASSIF

Exigibilités	\$ 985,940	\$ 1,097,398
Intérêts minoritaires dans une filiale	9,110	103,501
Intérêts des actionnaires extérieurs :		
Groupe Minier Sullivan Ltée .	22,067,865	21,933,529
East Sullivan Mines Limited .	17,140,186	17,031,696
	<u>\$40,203,101</u>	<u>\$40,166,124</u>

ÉTAT COMBINÉ DES OPÉRATIONS (SUJET À VÉRIFICATION DE FIN D'ANNÉE)

	28 février 1971	Moitié de l'année fiscale 1969-1970
Production nette*	\$ 4,751,205	\$ 6,600,346
Coût d'opérations	3,236,846	3,335,759
Profit d'opérations	1,514,359	3,264,587
Dépréciation et amortissement	1,088,389	711,694
Profit d'opérations après dépréciation et amortissement	425,970	2,552,893
Revenus de placements et autres revenus	403,719	401,696
	<u>829,689</u>	<u>2,954,589</u>
Provision pour impôts et autres dépenses	63,620	159,234
	<u>766,069</u>	<u>2,795,355</u>

AJOUTER

Partie de la perte d'une compagnie subsidiaire attribuable aux intérêts minoritaires	35,734	5,980
Bénéfices nets combinés	<u>\$ 801,803</u>	<u>\$ 2,801,335</u>

Intérêts des actionnaires extérieurs dans les bénéfices ci-haut : 3,725,000 actions Groupe Minier Sullivan Ltée	\$ 451,687	\$ 1,587,548
2,846,032 actions East Sullivan Mines Limited	350,116	1,213,787
6,571,032 actions	<u>\$ 801,803</u>	<u>\$ 2,801,335</u>

Bénéfices nets effectifs par action détenue par les actionnaires extérieurs	<u>\$ 0.12</u>	<u>\$ 0.42½</u>
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NOTES

L'état combiné des opérations, pour la période terminée le 28 février 1971 comparé à celui de la moitié de l'année fiscale 1969-1970, résulte d'une combinaison des bénéfices des compagnies suivantes :

East Sullivan Mines Limited, Groupe Minier Sullivan Ltée, Société Minière d'Estrle Ltée, Société Minière Weedon Ltée et Nigadoo River Mines Limited.

* La production des métaux pour les six mois terminés le 28 février 1971 a été enregistrée aux livres, avant le coût de réalisation, aux prix suivants : cuivre — \$0.50/lb, zinc — \$0.14/lb, plomb — \$0.12½/lb, cadmium — \$2.25/lb, bismuth — \$6.00/lb, or — \$38.80/oz et argent — \$1.62/oz.

ÉTAT COMBINÉ DE LA SOURCE ET DE L'EMPLOI DES FONDS (SUJET À VÉRIFICATION DE FIN D'ANNÉE)

	28 février 1971	Moitié de l'année fiscale 1969-1970
FONDS DE ROULEMENT		
au début de la période	<u>\$12,659,761</u>	<u>\$16,944,302</u>
SOURCE DES FONDS :		
Bénéfices nets combinés de l'exercice	801,803	2,801,335
Dépréciation et amortissement	1,088,389	711,694
Dépenses différées regroupées comme disponibilité	—	5,678
Ajustement d'impôt des années antérieures	14,374	(939)
	<u>1,904,566</u>	<u>3,517,768</u>

EMPLOI DES FONDS :

Dividendes payés aux actionnaires extérieurs	1,642,764	1,642,757
Exploration extérieure	223,377	71,886
Dépenses préliminaires à la production	2,370,021	2,085,759
Additions des immobilisations .	273,421	529,839
Acquisitions d'actions et de débentures et avances à des filiales	1,015,718	1,292,783
Part des intérêts minoritaires dans la perte d'une filiale consolidée	35,734	5,980
Dettes à long-terme regroupées comme exigibilité	—	10,738
Divers	(4,356)	20,297
	<u>5,556,679</u>	<u>5,660,039</u>

Diminution du fonds de roulement	<u>3,652,113</u>	<u>2,142,271</u>
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FONDS DE ROULEMENT à la fin de la période	<u>\$ 9,007,648</u>	<u>\$14,802,031</u>
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NOTE

L'état combiné de la source et de l'emploi des fonds au 28 février 1971 comparé à celui de la moitié de l'année fiscale 1969-1970 résulte d'une combinaison des compagnies suivantes :

East Sullivan Mines Limited, Groupe Minier Sullivan Ltée, Société Minière d'Estrle Ltée, Société Minière Weedon Ltée et Nigadoo River Mines Limited.

pending enactment of definitive regulations by the Government of New Brunswick relative to pollution control and the ecological effects of similar mining and milling operations.

At Clinton Copper Mines Limited, a company controlled jointly with Dome Mines Limited, it is possible that material from two Clinton Copper deposits representing a total of approximately 315,000 tons with average grade of 2.3% copper, 1.84% zinc and 0.64 oz. silver per ton, may be custom milled at the Cupra division.

Overall, the levels of ore reserves at the various divisions and subsidiaries in production have been developed and maintained to the point where operations are secured for several years to come.

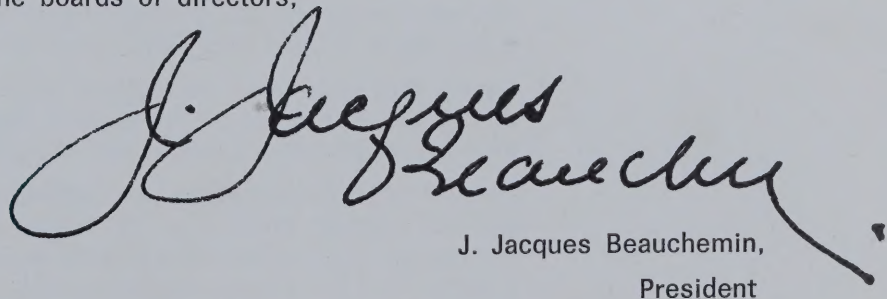
I am further gratified to be able to report that, due to increasing demand for products derived from lithium, consideration is being given to resumption of operations at your company's lithium property in the Abitibi region of Quebec. The company owns a large pegmatite deposit with an integrated concentrator and refinery and is thus in a favorable position to take advantage of the promising future markets for lithium products.

In conclusion, I would like to draw the attention of shareholders to the sound financial position of the companies. It is a base which opens avenues for the future, despite the presently unfavorable general economic climate.

Shareholders should also keep in mind that the substantially higher provision made this year for depreciation and amortization — exceeding by approximately \$1 million the amount accounted in the 1970 fiscal year — resulted in a lower net profit reported. On the other hand, the total cash flow of \$5 million, compared to \$7 million in the 1970 year, representing a 30% decrease, reflects the real year variation and was achieved despite the companies having to contend with lower net return for its production. I believe this demonstrates the companies' abilities to generate a satisfactory cash flow, despite adverse market and monetary conditions, which remain outside of our control.

The directors are determined to pursue policies that will enable maximum return from our operations. In this quest, the loyalty and support of our employees is greatly appreciated.

On behalf of the boards of directors,



J. Jacques Beauchemin,
President

October 7, 1971

Mining Operations

This report provides a resume of the mining operations of Sullivan Mining Group Ltd., of its Solbec and Cupra divisions and of its subsidiaries, D'Estrie Mining Company Ltd., Weedon Mines Ltd. and Nigadoo River Mines Limited.

Solbec Division

Ore mined amounted to 23,836 tons of an average grade of 1.10% copper, 1.05% lead, 4.22% zinc, 0.022 ounce of gold and 2.143 ounces of silver.

Solbec terminated its operations at the beginning of December, 1970, when its ore reserves were exhausted.

Cupra Division

The mine produced 150,868 tons of ore, averaging 2.37% copper, 0.64% lead, 3.81% zinc, 0.014 ounce of gold and 1.014 ounces of silver.

The development is completed on the bottom levels. The ore reserves amount to 521,000 tons with an average grade of 2.49% copper, 0.60% lead, 3.58% zinc, 0.014 ounce gold and 1.00 ounce of silver per ton.

D'Estrie Mining Company Ltd.

Development has been continued on the first eleven levels, between the 2650-foot and 4475-foot horizons. The ore from that development has been sent to the mill, with 66,989 tons treated giving an average grade of 1.78% copper, 0.51% lead, 2.14% zinc, 0.012 ounce of gold and 0.823 ounce of silver.

Development carried out on the levels between 2570 feet and 3875 feet has blocked out ore reserves amounting to 1,012,800 tons with grade of 3.08% copper, 0.50% lead, 2.51% zinc, 0.013 ounce of gold and 0.92 ounce of silver. Drifting, being carried out on the 3875-foot and 4025-foot horizons, shows the possibility of opening up another 400,000 tons of ore during the coming months.

Weedon Mines Ltd.

The mine produced 162,351 tons of ore averaging 1.45% copper, 0.77% zinc, 0.006 ounce of gold and 0.289 ounce of silver.

During the fiscal year the inclined shaft was deepened by 760 feet; this is the equivalent of 544 vertical feet. Two stations have been cut, the first at 2200-foot horizon and the other at the 2500-foot horizon.

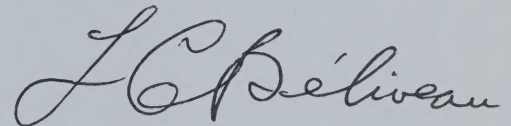
Proven ore reserves above the 2000-foot level amount to 269,000 tons with an average grade of 1.6% copper and 0.7% zinc. Diamond drilling carried out thus so far has indicated an additional of 126,000 tons with a grade of 2.2% copper and 0.3% zinc, below the 2000-foot level. The exploration and the development of these two bottom levels will begin soon. Diamond drilling will also be carried out during the year in order to explore at depth.

Nigadoo River Mines Limited

The concentrator treated 322,956 tons of ore with an average grade of 0.27% copper, 2.53% lead, 2.66% zinc and 3.37 ounces of silver. Ore reserves are 1,597,000 tons with a grade of 0.27% copper, 2.97% lead, 2.99% zinc and 3.88 ounces of silver. In the ore reserves calculations, pillars presently considered as irrecoverable have been excluded.

General

I wish to thank Messrs. R. B. Gosselin and C. Bourgoin, respectively manager and general superintendent of the Eastern Townships operations, Messrs. M. J. Gauvin and G. M. Doucet, respectively manager and general superintendent of Nigadoo River Mines Limited, Mr. E. W. J. Thornton, the chief metallurgist, the staffs and all the employees for loyal and good services.

A handwritten signature in dark ink, reading "LC Béliveau". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

Lucien C. Béliveau, Eng.
Vice President (mines)

October 7, 1971

Brunswick Tin Mines Limited

Isometric projection of the
FIRE TOWER ZONE from
100 feet below sea-level to
500 feet above sea-level.



Review of Exploration

The exploration activities of Sullivan Mining Group Ltd. for the fiscal year ended August 31, 1971, were spread over several areas of Quebec and New Brunswick and entailed expenses amounting to \$1.3 million. More than half of this amount, i.e. : \$670,000, was spent for exploration and research work on the Mount Pleasant project of Brunswick Tin Mines Ltd., in southern New Brunswick.

Brunswick Tin Mines Limited

Efforts have been sustained during the year towards the valuation of the mineralized zones on the property of Brunswick Tin Mines Ltd. The diamond drilling operations that had started in July of 1968 were continued until December, 1970. Footage drilled during that time was 131,570 feet. Some 90,000 feet had been drilled previously by predecessors. Drilling was resumed in September of this year.

The company has installed its own assaying facilities in St. Stephen, New Brunswick at a cost of \$90,000. Most of the quantitative assaying for the project is now done in this laboratory.

The additional drilling and, above all, the quantitative assaying done during the year have more than substantiated the results obtained previously for the Fire Tower Zone. Grade and tonnage calculations for the part of the zone situated between the elevations 450 feet above sea level and 250 feet below sea level have given the following results : 26.9 million tons of 0.20% tungsten, 0.10% molybdenum, 0.08% bismuth, 0.04% tin, 0.07% copper, 0.33% zinc, 0.09% lead, 0.80% arsenic. An additional eight million tons of possibly lower grade mineralization is also indicated above the 450 foot elevation (the top of the hill is 1200 feet above sea level), but the data accumulated so far are not sufficient to allow an accurate calculation of the grade. At this time last year, there was reported for this zone a total of 32 million tons with a grade, based on semiquantitative analyses, of 0.15% tungsten, 0.09% molybdenum and 0.07% bismuth.

The deeper drilling done in the fall of last year on the North Zone, half a mile north of the Fire Tower Zone, has indicated the presence of mineralization in tungsten, molybdenum and bismuth similar to the one of the Fire Tower Zone. The deepest hole drilled on the North Zone intrusive plug at that time, Hole MPS-147, returned a 540 foot intersection averaging 0.18% tungsten, 0.08% molybdenum and 0.11% bismuth. The two holes completed since the drilling was resumed in September have given intersections of 153 feet at 0.25% tungsten, 0.10% molybdenum, 0.12% bismuth in Hole MPS-150 and 140 feet at 0.49% tungsten, 0.08% molybdenum, 0.10% bismuth in Hole MPS-151. Hole MPS-150 is located 500 feet north of Hole MPS-147 while Hole MPS-151 is 600 feet north of Hole MPS-150. The boring of about a dozen widely spaced holes is contemplated to provide information for the preliminary assessment of the potential of this zone.

Metallurgical research has continued throughout the year, both in Ottawa by the Mineral Processing Division of the Department of Energy, Mines and Resources, and in Bathurst, N.B., by the metallurgical staff of Sullivan Mining Group Ltd. The results obtained to-date, although incomplete, appear excellent and augur well for the future of that potential producer.

Exploration on Other Properties

Field work for the period was conducted on 37 properties or locations. Thirty of these are in the Province of Quebec where \$370,000 of exploration work was done, whereas \$260,000 was spent on other projects in New Brunswick.

The latter include the property of Chester Mines Limited for which \$88,400 was spent during the year. The work consisted mostly of engineering and metallurgical studies which confirmed the favourable results obtained previously. The ore reserves remain the same as reported last year : 4.9 million tons of possible open pit ore consisting of 1.6 million tons of massive and semi-massive sulfides with a grade of 0.63% copper, 0.83% lead and 2.12% zinc and 3.3 million tons of disseminated copper ore at a grade of 0.82% copper. Additionally, 3.8 million tons at 1.58% copper are indicated in the downward extension of the near-surface zone, or 13 million tons at 0.77% copper if lower grade mineralization is included.

On the Clinton Copper Mines property near Lac Megantic, Quebec, expenses amounted to \$81,900., nearly all for 14,696 feet of diamond drilling which was done in an attempt to find additional ore lenses. No new deposit was found and very little was added to the known deposits. The reserve for the five ore zones on this property total 1.8 million tons at 2.02% copper and 1.54% zinc. A topographical survey of the hilly terrain was also started. Expenses and participation on this property are shared with Dome Mines Ltd.

Several drilling targets were found on a few of the other properties worked during the period. It is planned to drill-test these during the present fiscal year. Activities will be maintained in the search of new deposits while further research and studies of the most interesting prospects will be continued.



Gilles Carrière, Eng.
Exploration Manager

October 7, 1971

Earnings

Net combined earnings for the year were \$2,180,172 or \$0.33 per share, compared with \$5,602,670 or \$0.85 per share in 1970. This reduction is mainly due to lower metal prices resulting in a decline of \$2,735,675 in the net revenue from production and higher — by \$934,968 — depreciation and amortization charges.

Financial Position

The current combined working capital was reduced to \$9,469,436 from \$12,659,761, due to a reduced cash flow (\$5,062,015 compared to \$7,355,400 in 1970), while investments and capital expenditures amounted to \$6,133,079 and dividends paid caused a cash disbursement of \$1,642,763.

Production of Metals

Total revenue from production amounted to \$17,333,210 compared with \$20,475,722 in 1970 as shown in the table on this page. All metals, except zinc, contributed to the reduction in returns during the year. Copper recorded the largest decline as the average price obtained was \$0.50 compared with \$0.66 per pound in the preceding fiscal year. This was partially offset by a 10% increase in the pounds of copper produced during the year as compared to the preceding period.

Metals	Mines	Subsidiary companies			Total 1970-1971		Total 1969-1970	
	Cupra and Solbec Divisions	D'Estrie (development ore)	Weedon	Nigadoo	Pounds *ounces	Value \$	Pounds *ounces	Value \$
Copper	7,295,720	2,325,114	4,613,382	1,482,578	15,716,794	7,789,386	14,134,262	9,290,125
Lead	1,019,435	284,432	—	15,542,039	16,845,906	2,109,441	16,850,786	2,392,879
Zinc	10,146,946	2,211,173	1,354,062	15,572,185	29,284,366	4,870,295	33,207,064	4,842,658
Gold *	2,057	563	560	—	* 3,180	130,976	* 3,728	137,150
Silver *	164,357	42,682	34,130	938,140	* 1,179,309	1,868,390	* 1,247,513	2,429,491
Cadmium	56,503	11,256	7,458	205,951	281,168	249,028	281,381	998,888
Bismuth	—	—	—	60,201	60,201	315,694	60,164	384,531
						<u>\$17,333,210</u>		<u>\$20,475,722</u>

Officers

JEAN BEAUCHEMIN, *Chairman of the Board*
J. JACQUES BEAUCHEMIN, Q.C.*, *President*
ANDRE BEAUCHEMIN, Eng.*, *Executive Vice-President*
LUCIEN C. BELIVEAU, Eng.*, *Vice-President (Mines)*
REAL J. LAFLEUR, *Secretary-Treasurer*
FERNAND CORDEAU, C.A., *Assistant Secretary-Treasurer*
ROGER PLASSE, Eng., *General Manager*
GILLES CARRIERE, Eng., *Exploration Manager*

* Executive Committee

DIRECTORS OF SULLIVAN MINING GROUP LTD.

ANDRÉ BEAUCHEMIN, Eng.
GENDRON BEAUCHEMIN, Eng.
J. JACQUES BEAUCHEMIN, Q.C.
JEAN BEAUCHEMIN
LUCIEN C. BÉLIVEAU, Eng.
MARC H. DHAVERNAS, D.E.Sc.
Brig. Gen. J. GUY GAUVREAU
RÉAL J. LAFLEUR
J. ERNEST LAFORCE
PAUL F. McDONALD, B.C.L.
ALEXANDRE J. MONTMINY

DIRECTORS OF EAST SULLIVAN MINES LIMITED

ANDRÉ BEAUCHEMIN, Eng.
CLAUDE BEAUCHEMIN, Attorney
P. ERNEST BEAUCHEMIN, Q.C.
J. JACQUES BEAUCHEMIN, Q.C.
JEAN BEAUCHEMIN
LUCIEN C. BÉLIVEAU, Eng.
ALBERT DOYON, Economist
Major JACQUES GAUVREAU
ANDRE LATREILLE, Eng.

Mine Managers

R. B. GOSSELIN, Eng., Cupra, D'Estrie & Weedon Mines
MARTIN J. GAUVIN, Eng., Nigadoo River Mines Limited
O. ROBERT WRAY, Eng., Brunswick Tin Mines Limited

Registrar and Transfer Agents

GUARANTY TRUST COMPANY OF CANADA, Montreal - Toronto
BANKERS TRUST COMPANY, New York

Shares Listed

CANADIAN STOCK EXCHANGE / TORONTO STOCK EXCHANGE

Auditors

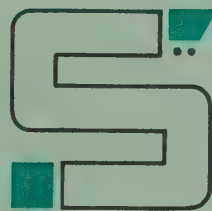
MAHEU, NOEL, ANDERSON, VALIQUETTE & ASSOCIÉS, Montreal

Head Office

Suite 2500 - B.C.N. Building, 500 Place D'Armes, Montreal 126, Quebec

Combined Financial Statements

As at August 31, 1971



**Sullivan Mining Group
Ltd.**

and

**East Sullivan Mines
Limited**

Sullivan Mining Group Ltd.
and
East Sullivan Mines Limited

(No Personal Liability)

(Incorporated under the Quebec Companies' Act)

ASSETS

	August 31, 1971	August 31, 1970
CURRENT ASSETS		
Cash and term deposits	\$ 4,529,767	\$ 2,459,682
Marketable securities at cost (market value : 1971 \$1,991,316 — 1970 \$4,879,954) (Note 5)	1,777,765	4,696,532
Accounts receivable — Unconsolidated subsidiaries	62,236	174,525
— Others	60,789	96,922
Accrued interest receivable	13,636	37,754
Concentrates valued at estimated net return under firm sales contracts, less advances thereon	2,392,397	3,914,211
Mining and milling supplies :		
Valued at average cost	1,009,293	1,393,875
Valued at possible amount of realization	195,761	209,697
Prepaid expenses	60,214	74,250
Recoverable income taxes and prepayments	60,442	584,622
	<u>10,162,300</u>	<u>13,642,070</u>
 INVESTMENTS AT COST AND LOANS AND ADVANCES (Annex 1) — (Note 2)	 <u>7,192,604</u>	 <u>5,606,532</u>
 FIXED ASSETS — (Notes 3, 4, 6 and 7)		
Real estate at cost	111,175	111,175
Land, buildings, plant and equipment at cost less accumulated depreciation — 1971 \$7,477,274 (1970 — \$6,753,820)	7,894,825	8,355,360
Mining properties, claims and concessions at cost	351,255	351,255
	<u>8,357,255</u>	<u>8,817,790</u>
 OTHER ASSETS AT COST, less amount written off (Notes 4, 6 and 8)		
Deferred development and pre-production expenditures	14,414,028	11,974,620
Outside exploration expenditures	992,792	1,021,892
Other deferred expenses	6,665	7,999
	<u>15,413,485</u>	<u>13,004,511</u>
	<u><u>\$41,125,644</u></u>	<u><u>\$41,070,903</u></u>

Approved on behalf of the Boards of Directors :

J. JACQUES BEAUCHEMIN

LUCIEN C. BÉLIVEAU

COMBINED BALANCE SHEET

As at August 31, 1971

(With corresponding figures as at August 31, 1970)

STATEMENT 1

LIABILITIES

CURRENT LIABILITIES

	August 31, 1971	August 31, 1970
Accounts payable — others	\$ 405,178	\$ 664,790
Wages payable	89,099	66,756
Provision for Quebec Mining duties	198,587	250,763
	<u>692,864</u>	<u>982,309</u>

MINORITY INTEREST IN SUBSIDIARY

Nigadoo River Mines Limited	—	51,591
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INTEREST OF OUTSIDE SHAREHOLDERS

Sullivan Mining Group Ltd.

CAPITAL STOCK

Authorized — 10,000,000 shares without par value

Issued and fully paid :

8,400,000 shares	11,242,600	11,242,600
Less : 4,675,000 shares held by East Sullivan Mines Limited	6,257,042	6,257,042
3,725,000 shares held by the outside shareholders	4,985,558	4,985,558
Combined contributed surplus	2,074,105	2,074,105
Combined retained earnings — statement 3	15,700,038	15,480,960
Interest of 3,725,000 shares held by the outside shareholders	<u>22,759,701</u>	<u>22,540,623</u>

East Sullivan Mines Limited

CAPITAL STOCK

Authorized, issued and fully paid :

4,675,000 shares without par value	4,250,000	4,250,000
Less : 1,828,968 shares held by Sullivan Mining Group Ltd.	1,662,697	1,662,697
2,846,032 shares held by the outside shareholders	2,587,303	2,587,303
Combined contributed surplus	426,450	426,450
Combined retained earnings — Statement 3	14,659,326	14,482,627
Interest of 2,846,032 shares held by the outside shareholders	<u>17,673,079</u>	<u>17,496,380</u>
	<u>\$41,125,644</u>	<u>\$41,070,903</u>

COMBINED STATEMENT OF EARNINGS

For the year ended August 31, 1971
(With corresponding figures as at August 31, 1970)

STATEMENT 2

	August 31, 1971	August 31, 1970
REVENUE FROM METAL RECOVERIES — Production — (Notes 6 and 7) ...	\$17,333,210	\$20,475,722
Less : Cost of realization and freight	<u>6,868,192</u>	<u>7,275,029</u>
	<u>10,465,018</u>	<u>13,200,693</u>
DEDUCT :		
OPERATING COSTS		
Mining operations — (Note 8)	5,855,691	5,851,907
General administration expenses	<u>349,821</u>	<u>493,181</u>
Depreciation and amortization of deferred development and pre-production expenditures — (Notes 3, 4, 6 and 7)	<u>2,552,288</u>	<u>1,617,320</u>
	<u>8,757,800</u>	<u>7,962,408</u>
OPERATING PROFIT	<u>1,707,218</u>	<u>5,238,285</u>
DEDUCT :		
OTHER EXPENSES		
Net expenses of closed mines and idle property	107,681	103,468
Outside exploration expenses written off	<u>321,488</u>	<u>131,164</u>
Amortization of bonds expenses of subsidiary	<u>1,333</u>	<u>1,333</u>
Loss on disposal of fixed assets	<u>31,823</u>	<u>8,862</u>
	<u>462,325</u>	<u>244,827</u>
	<u>1,244,893</u>	<u>4,993,458</u>
ADD :		
OTHER INCOME		
Interest from unconsolidated subsidiaries	312,257	175,198
Dividends and other interest — net	<u>274,878</u>	<u>595,675</u>
Profit on sales of investments	<u>332,734</u>	<u>41,380</u>
	<u>919,869</u>	<u>812,253</u>
EARNINGS before mining duties	<u>2,164,762</u>	<u>5,805,711</u>
DEDUCT :		
Provision for Quebec Mining duties	<u>45,000</u>	<u>215,000</u>
NET EARNINGS	<u>2,119,762</u>	<u>5,590,711</u>
ADD :		
Minority interest's share of loss of Nigadoo River Mines Limited for the year	<u>60,410</u>	<u>11,959</u>
NET COMBINED EARNINGS for the year carried to Retained Earnings — Statement 3 — (Note 4)	<u>\$ 2,180,172</u>	<u>\$ 5,602,670</u>
INTEREST OF THE OUTSIDE SHAREHOLDERS		
Sullivan Mining Group Ltd. — 3,725,000 shares	\$ 1,230,618	\$ 3,175,096
East Sullivan Mines Limited — 2,846,032 shares	<u>949,554</u>	<u>2,427,574</u>
<u>6,571,032</u> shares	<u>\$ 2,180,172</u>	<u>\$ 5,602,670</u>

COMBINED STATEMENT OF RETAINED EARNINGS

For the year ended August 31, 1971

STATEMENT 3

	Sullivan Mining Group Ltd.	East Sullivan Mines Limited
Balance at beginning of year	\$15,480,960	\$14,482,627
ADD :		
Net combined earnings for the year	1,230,618	949,554
	<u>16,711,578</u>	<u>15,432,181</u>
DEDUCT :		
Excess of cost over value of shares of consolidated subsidiary acquired during the year	\$ 2,366	
Net dividends paid during the year :		
East Sullivan Mines Limited	711,510	
Sullivan Mining Group Ltd.	931,253	
Adjustments of prior years' income taxes	123,700	
Minority portion of deficit	15,566	
	<u>\$ 1,784,395</u>	<u>772,855</u>
Balance at end of year	<u>\$15,700,038</u>	<u>\$14,659,326</u>

COMBINED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

For the year ended August 31, 1971

(With corresponding figures as at August 31, 1970)

STATEMENT 4

	August 31, 1971	August 31, 1970
Working capital at beginning of year	\$12,659,761	\$16,944,302
SOURCE OF FUNDS		
Net Profit for the year — (Note 4)	2,180,172	5,602,670
Add — Items not requiring cash outlay :		
Depreciation and amortization — (Notes 3, 4, 6 7 and 8)	2,552,288	1,617,320
Amortization of deferred expenses	1,333	2,340
Outside exploration written-off	321,488	131,164
	<u>5,055,281</u>	<u>7,353,494</u>
Reimbursements of mortgages	6,734	1,906
	<u>5,062,015</u>	<u>7,355,400</u>
APPLICATION OF FUNDS		
Additions to fixed assets (net of proceeds)	294,476	1,059,678
Minority interest's share of the loss of a consolidated subsidiary	60,410	11,959
Investments acquired :		
Loans and advances to subsidiaries not combined and affiliate	1,389,048	1,717,353
Purchases of shares and debentures in subsidiaries and others	212,871	868,214
Outside exploration expenses	292,388	143,773
Pre-production expenses — (Notes 4, 6, 7 and 8)	4,236,684	4,497,948
Others	—	53,624
Prior years' income tax adjustments	123,700	1,878
Net dividends paid	<u>1,642,763</u>	<u>3,285,514</u>
	<u>8,252,340</u>	<u>11,639,941</u>
Decrease in working capital	<u>3,190,325</u>	<u>4,284,541</u>
Working capital at end of year	<u>\$ 9,469,436</u>	<u>\$12,659,761</u>

SUBSIDIARY COMPANIES NOT CONSOLIDATED

As at August 31, 1971

ANNEX 1

	Brompton Mines Ltd.	Brunswick Tin Mines Limited	Chester Mines Limited	Courvan Mining Company Limited	Eastern Explorers Corporation	Federal Metals Corporation	Millstream Mines Ltd.
% of Interest	80%	78%	100%	56.09%	73.33%	70.74%	50%
Current assets	\$ 82	\$ 44,456	\$ 566	\$ 89,709	\$ 95	\$ 68,192	\$ 4,542
Investments at cost				355,821			
Buildings and equipment		287,924	13,500				
Deferred expenditures	24,128	2,741,235	1,600,872	500,032	4,884	832,322	159,952
Mining properties, licenses, rights, claims and concessions (see note "A" below)	114,500	79,000	75,000	268,142	300,000	1,000,000	37,500
	<u>\$ 138,710</u>	<u>\$3,152,615</u>	<u>\$1,689,938</u>	<u>\$1,213,704</u>	<u>\$ 304,979</u>	<u>\$1,900,514</u>	<u>\$ 201,994</u>
Current Liabilities							
Affiliated company		\$ 15,934					
Parent company		46,253			\$ 1,333		
Others		8,424					
Loans payable to parent company .	\$ 6,550	2,665,000	\$ 352,000		3,640		
Expenses to be reimbursed by the issue of shares of the company ...	19,653		278,931			\$ 106,143	\$ 14,489
Demand Note			885,600				
Capital stock — Net of discount ..	112,507	417,004	173,407	\$1,502,585	300,006	1,794,371	75,005
Deficit	—	—	—	(288,881)	—	—	—
Capital Surplus	—	—	—	—	—	—	112,500
	<u>\$ 138,710</u>	<u>\$3,152,615</u>	<u>\$1,689,938</u>	<u>\$1,213,704</u>	<u>\$ 304,979</u>	<u>\$1,900,514</u>	<u>\$ 201,994</u>

NOTE A — The amounts at which these items are recorded do not purport to represent their present or future value.

B — The total cost of the holdings and the loans and advances in the above unconsolidated subsidiaries is \$6,536,921.

NOTES TO COMBINED FINANCIAL STATEMENTS

As at August 31,1971

Note 1

The combined financial statements include the accounts of the two main companies, Sullivan Mining Group Ltd. and East Sullivan Mines Limited and those of the following subsidiaries: Nigadoo River Mines Limited (96.11%), Weedon Mines Ltd. (100%) and d'Estrie Mining Company Ltd. (100%). The other subsidiaries are excluded in the combined balance sheet because they are at the exploration stage.

Note 2 — Investments at Cost and Loans Advances

	Cost	Market Value
Subsidiaries not included in the combined financial statements : (Annex 1)		
Courvan Mining Company Limited	\$ 464,664	\$ 269,252
Other shares	1,738,917	—
Loans and advances	4,333,340	—
	<u>6,536,921</u>	<u>269,252</u>
Affiliated company :		
Shares	29,716	—
Loans and advances	15,628	—
Other securities :		
Shares	386,326	—
First mortgage income bonds	142,560	—
Mortgages receivable from employees and a director	81,453	—
	<u>\$7,192,604</u>	<u>\$ 269,252</u>

Note 3

Management has decided that it is more realistic to depreciate the milling assets and other facilities of Sullivan Mining Group Ltd. — Cupra Division on the total possible ore reserves of the Group in the Eastern Townships mining camp.

Depreciation has been calculated at \$0.50 per ton of ore milled for the current year. The net effect of this change has decreased depreciation by an amount of \$71,258.

Note 4

The net earnings for the year of Sullivan Mining Group Ltd. and of each of the subsidiaries are not taxable because the company claimed for tax purposes depreciation and outside exploration expenditures and deferred mine development in excess of the amount charged against earnings.

Furthermore, the company and its subsidiaries had as at August 31, 1971, undepreciated capital cost of \$10,645,000 and unamortized outside exploration expenditures and deferred mine development of \$14,286,000 available for write off against possible future taxable profits.

Note 5 — Pending Legal Procedures

A) No provision has been made in the financial statements for additional taxes on capital from the Minister of Revenue of Quebec for the fiscal periods 1965-1968 which are being contested by the company. A \$100,000 Province of Quebec bond has been deposited as a guarantee for the above mentioned claims as well as those of a similar nature against the companies which are now part of Sullivan Mining Group Ltd.

B) Legal proceedings have been instituted against the company whereby the plaintiffs are claiming 4/5 of the 340,000 escrowed shares of Sullipek Mines Inc. to be issued and allotted to Sullivan Mining Group Ltd. and alternatively failing delivery of the claimed shares, the plaintiffs have claimed the sum of \$1,000,000 of damages against Sullivan Mining Group Ltd. This litigation has arisen from an option granted by the Company to Terra Nova Explorations Ltd. on certain claims situated in the Gaspé area of the Province of Quebec. These proceedings have been contested and in the opinion of the company's counsel they are ill-founded in fact and in law.

Note 6 — D'Estrie Mining Company Ltd.

The pre-production expenditures have not been amortized and no depreciation was calculated on the fixed assets during the year because the company had no mining operations: the mine is in a period of mine development.

However, revenue from metals recovered, less cost of realization and expenses incurred for the treatment of the diluted ore has been included in combined income.

Note 7 — Weedon Mines Ltd.

Management of the company submitted an application to the Income Tax Departments for its thirty-six months' income tax exemption to be effective as of March 1, 1971.

Depreciation of fixed assets has been charged against earnings from March 1, 1971. Pre-milling and deferred development expenditures have been amortized at rates based on the total estimated ore reserves of the property.

Note 8 — Nigadoo River Mines Limited

The thirty-six months' tax exemption period ended February 1, 1971.

The stope preparation expense and mining expense amounting to \$326,430 have been reclassified as at August 31, 1970 so as to correspond to their classification as at August 31, 1971.

Stope preparation expense deferred for the year ended August 31, 1971 has been amortized at a rate of \$1.25 per ton milled, if the same method had been applied for the year ended August 31, 1970, the cost of production would have been increased by approximately \$75,000.

Note 9

Certain accounts have been reclassified in the financial statements as at August 31, 1970 so as to correspond with their classification as at August 31, 1971.

Auditors' Report

To the Shareholders,
Sullivan Mining Group Ltd.
and East Sullivan Mines Limited

We have examined the combined balance sheet of Sullivan Mining Group Ltd. and East Sullivan Mines Limited (No Personal Liability) as at August 31, 1971 and the combined statements of earnings, retained earnings and source and application of funds for the year ended on that date.

These statements are prepared for the purpose of determining the interest of the outside shareholders, excluding that of Sullivan Mining Group Ltd. and East Sullivan Mines Limited and are based on the verified financial statements as at August 31, 1971 of Sullivan Mining Group Ltd. consolidated with certain of its subsidiaries (Note 1) and of East Sullivan Mines Limited.

In our opinion, these financial statements when read with the notes relating thereto, present fairly the interest of the outside shareholders of Sullivan Mining Group Ltd. and East Sullivan Mines Limited as at August 31, 1971.

October 7, 1971

MAHEU, NOËL, ANDERSON, VALIQUETTE & ASSOCIÉS
Chartered Accountants

Financial Statements

as at August 31, 1971

**Sullivan Mining Group
Ltd. and its Subsidiaries**

(Pages 20 to 25)

and

**East Sullivan Mines
Limited**

(Pages 26 to 28)

Sullivan Mining Group Ltd.

and its subsidiaries

(Incorporated under the Quebec Companies' Act)

ASSETS

	August 31, 1971	August 31, 1970
CURRENT ASSETS		
Cash and term deposits	\$ 4,495,704	\$ 2,433,985
Marketable securities at cost (Market value \$1,991,316) (1970 — \$4,879,954) — (Note 5)	1,777,765	4,696,532
Accounts receivable — unconsolidated subsidiaries	62,236	174,525
— others	60,789	96,922
— parent company	8,483	—
Accrued interest receivable	13,636	37,754
Concentrates valued at estimated net return under firm sales contracts, less advances thereon	2,392,397	3,914,211
Mining, milling and refinery supplies :		
Valued at average cost	1,009,293	1,393,875
Valued at possible amount of realization	195,761	209,697
Prepaid expenses	60,214	74,250
Recoverable income taxes and prepayments	59,942	584,122
	<u>10,136,220</u>	<u>13,615,873</u>
 INVESTMENTS AT COST AND LOANS AND ADVANCES — (Note 2)	 8,305,309	 6,719,237
 FIXED ASSETS — (Notes 3, 4, 6 and 7)		
Real estate at cost	111,175	111,175
Land, buildings, plant and equipment at cost less accumulated depreciation \$7,477,274 — (1970 — \$6,753,820)	7,894,825	8,355,360
Mining properties, claims and concessions at cost	351,055	351,055
	<u>8,357,055</u>	<u>8,817,590</u>
 OTHER ASSETS AT COST, less amounts written off (Notes 4, 6, 7 and 8)		
Deferred development and pre-production expenditures	14,414,028	11,974,620
Outside exploration expenditures	992,792	1,021,892
Other deferred expenses	6,665	7,999
	<u>15,413,485</u>	<u>13,004,511</u>
	<u>\$42,212,069</u>	<u>\$42,157,211</u>

Approved on behalf of the Board of Directors :

J. JACQUES BEAUCHEMIN
ANDRÉ BEAUCHEMIN

CONSOLIDATED BALANCE SHEET

As at August 31, 1971

(With corresponding figures as at August 31, 1970)

STATEMENT 1

LIABILITIES

	August 31, 1971	August 31, 1970
CURRENT LIABILITIES		
Accounts payable	\$ 405,178	\$ 664,371
Wages payable	89,099	66,756
Loan payable to East Sullivan Mines Limited — (Parent Company)	440,000	425,000
Provision for Quebec Mining duties — (Note 5)	198,587	250,763
	<u>1,132,864</u>	<u>1,406,890</u>
MINORITY INTEREST	<u>—</u>	<u>51,591</u>
CAPITAL STOCK		
Authorized — 10,000,000 shares without par value		
Issued and fully paid — 8,400,000 shares	11,242,600	11,242,600
Contributed surplus	4,677,177	4,677,177
Retained earnings — Statement 3	<u>25,159,428</u>	<u>24,778,953</u>
SHAREHOLDERS' EQUITY	<u>41,079,205</u>	<u>40,698,730</u>
	<u>\$42,212,069</u>	<u>\$42,157,211</u>

AUDITORS' REPORT

To the Shareholders,
Sullivan Mining Group Ltd.,

We have examined the consolidated balance sheet of Sullivan Mining Group Ltd. and its subsidiaries, Nigadoo River Mines Limited, Weedon Mines Ltd. and D'Estrée Mining Company Ltd. as at August 31, 1971 and the consolidated statements of earnings, retained earnings and source and application of funds for the year ended on that date and have obtained all the information and explanations we have required. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion and according to the best of our information and the explanations given to us and as shown by the books of the Companies, the consolidated financial statements when read with the accompanying notes, present fairly the consolidated financial position of the Companies as at August 31, 1971 and the consolidated results of their operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

October 7, 1971

MAHEU, NOËL, ANDERSON, VALIQUETTE & ASSOCIÉS
Chartered Accountants

CONSOLIDATED STATEMENT OF EARNINGS

For the year ended August 31, 1971

(With comparative figures as at August 31, 1970)

STATEMENT 2

	August 31, 1971	August 31, 1970
REVENUE FROM METAL RECOVERIES — Production	\$17,333,210	\$20,475,722
Less: Cost of realization and freight	6,868,192	7,275,029
	<u>10,465,018</u>	<u>13,200,693</u>
DEDUCT :		
OPERATING COSTS		
Mining operations — (Note 8)	5,855,691	5,851,907
General administration expenses	324,420	456,875
Depreciation and amortization of deferred development and pre-production expenditures — (Notes 3, 4, 6 and 7)	2,552,288	1,617,320
	<u>8,732,399</u>	<u>7,926,102</u>
OPERATING PROFIT	<u>1,732,619</u>	<u>5,274,591</u>
OTHER EXPENSES		
Net expenses of closed and idle properties	107,681	103,468
Outside exploration expenses written off	321,488	131,164
Amortization of bonds expenses of subsidiary	1,333	1,333
Loss on disposal of fixed assets	31,823	8,862
Interest expense — parent company	38,931	23,200
— affiliated company	4,255	—
	<u>505,511</u>	<u>268,027</u>
	<u>1,227,108</u>	<u>5,006,564</u>
OTHER INCOME		
Interest from unconsolidated subsidiaries	312,257	175,198
Dividend from parent company	457,240	914,493
Other dividends and interest	277,358	579,796
Profit on sales of investments	332,734	41,380
	<u>1,379,589</u>	<u>1,710,867</u>
EARNINGS before mining duties	2,606,697	6,717,431
Provision for Quebec Mining Duties	45,000	215,000
	<u>2,561,697</u>	<u>6,502,431</u>
ADD :		
Minority interest's share of loss of Nigadoo River Mines Limited for the year	<u>60,410</u>	<u>11,959</u>
NET EARNINGS FOR THE YEAR, carried to Retained Earnings, Statement 3, (Note 4)	<u>\$ 2,622,107</u>	<u>\$ 6,514,390</u>

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

For the year ended August 31, 1971

(With corresponding figures as at August 31, 1970)

STATEMENT 3

	August 31, 1971	August 31, 1970
Balance at beginning of year	\$24,778,953	\$22,638,164
ADD :		
Net consolidated earnings for the year	2,622,107	6,514,390
	<u>27,401,060</u>	<u>29,152,554</u>
DEDUCT :		
Dividends paid	2,100,000	4,200,000
Excess of cost over value of shares of consolidated subsidiaries acquired during the year :		
Nigadoo River Mines Limited	2,366	2,290
Weedon Mines Limited	—	93,900
Minority portion of deficit	15,566	—
Amalgamation and reorganization expenses written off	—	75,533
Adjustments of prior years' income taxes	123,700	1,878
	<u>2,241,632</u>	<u>4,373,601</u>
Balance at end of year	<u>\$25,159,428</u>	<u>\$24,778,953</u>

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

For the year ended August 31, 1971

(With corresponding figures as at August 31, 1970)

STATEMENT 4

	August 31, 1971	August 31, 1970
Working capital at beginning of year	\$12,208,983	\$16,496,290
SOURCE OF FUNDS		
Net Profit for the year	2,622,107	6,514,390
Add: item not requiring any outlay of cash :		
Depreciation and amortization	2,552,288	1,617,320
Amortization of deferred expenses	1,333	2,340
Outside exploration written-off	321,488	131,164
Reimbursements of mortgages	6,734	1,906
	<u>5,503,950</u>	<u>8,267,120</u>
APPLICATION OF FUNDS		
Additions to fixed assets (net of proceeds)	294,476	1,059,678
Minority interest's share of the loss of a consolidated subsidiary	60,410	11,959
Investments acquired :		
Loans and advances to subsidiaries not consolidated and affiliate	1,389,048	1,717,353
Purchases of shares and debentures in subsidiaries and others	212,871	868,214
Outside exploration expenses	292,388	143,773
Pre-production expenses — (Notes 6, 7 and 8)	4,236,684	4,497,948
Other	—	53,624
Prior years' income tax adjustments	123,700	1,878
Payments of dividends	2,100,000	4,200,000
	<u>8,709,577</u>	<u>12,554,427</u>
Decrease in working capital	<u>3,205,627</u>	<u>4,287,307</u>
Working capital at end of year	<u>\$ 9,003,356</u>	<u>\$12,208,983</u>

SUBSIDIARY COMPANIES NOT CONSOLIDATED

As at August 31, 1971

ANNEX 1

	Brompton Mines Ltd.	Brunswick Tin Mines Limited	Chester Mines Limited	Courvan Mining Company Limited	Eastern Explorers Corporation	Federal Metals Corporation	Millstream Mines Ltd.
% of Interest	80%	78%	100%	56.09%	73.33%	70.74%	50%
Current assets	\$ 82	\$ 44,456	\$ 566	\$ 89,709	\$ 95	\$ 68,192	\$ 4,542
Investments at cost				355,821			
Buildings and equipment		287,924	13,500				
Deferred expenditures	24,128	2,741,235	1,600,872	500,032	4,884	832,322	159,952
Mining properties, licenses, rights, claims and concessions (see note "A" below)	114,500	79,000	75,000	268,142	300,000	1,000,000	37,500
	<u>\$ 138,710</u>	<u>\$3,152,615</u>	<u>\$1,689,938</u>	<u>\$1,213,704</u>	<u>\$ 304,979</u>	<u>\$1,900,514</u>	<u>\$ 201,994</u>
Current liabilities							
Affiliated company		\$ 15,934					
Parent company		46,253			\$ 1,333		
Others		8,424					
Loans payable to parent company ..	\$ 6,550	2,665,000	\$ 352,000		3,640		
Expenses to be reimbursed by the issue of shares of the company ...	19,653		278,931			\$ 106,143	\$ 14,489
Demand Note			885,600				
Capital stock — net of discount ...	112,507	417,004	173,407	\$1,502,585	300,006	1,794,371	75,005
Deficit	—	—	—	(288,881)	—	—	—
Capital Surplus	—	—	—	—	—	—	112,500
	<u>\$ 138,710</u>	<u>\$3,152,615</u>	<u>\$1,689,938</u>	<u>\$1,213,704</u>	<u>\$ 304,979</u>	<u>\$1,900,514</u>	<u>\$ 201,994</u>

NOTE A — The amounts at which these items are recorded do not purport to represent their present or future value.

B — The total cost of the holdings and the loans and advances in the above unconsolidated subsidiaries is \$6,536,921.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at August 31, 1971

Note 1

The consolidated financial statements include the accounts of Sullivan Mining Group Ltd. and those of the following subsidiaries: Nigadoo River Mines Limited (96.11%), Weedon Mines Ltd. (100%) and d'Estrie Mining Company Ltd. (100%). The other subsidiaries are excluded in the consolidated balance sheet because they are at the exploration stage.

Note 2

A) The Company owns 1,828,968 shares of the parent company East Sullivan Mines Limited, representing 39.1% of the outstanding capital stock. This investment is carried at cost and the income of the parent is included in the accounts only to the extent of dividends received. The parent owns 55.6% of the outstanding capital stock of the company.

B) Investments at cost and loans and advances

	Cost	Market Value
East Sullivan Mines Limited — parent company	\$1,112,705	\$5,212,559
Subsidiaries not consolidated: (Annex 1)		
Courvan Mining Company Limited	464,664	269,252
Other shares	1,738,917	—
Loans and advances	4,333,340	—
	6,536,921	269,252
Affiliated company:		
Shares	29,716	—
Loans and advances	15,628	—
Other securities:		
Shares	386,326	—
First mortgage income bonds	142,560	—
Mortgages receivable from employees and a director	81,453	—
	<u>\$8,305,309</u>	<u>\$5,481,811</u>

Note 3

Management has decided that it is more realistic to depreciate the milling assets and other facilities of Sullivan Mining Group Ltd. — Cupra Division on the total possible ore reserves of the Group in the Eastern Townships mining camp.

Depreciation has been calculated at \$0.50 per ton of ore milled for the current year. The net effect of this change has decreased depreciation by an amount of \$71,258.

Note 4

The net earnings for the year of Sullivan Mining Group Ltd. and of each of the subsidiaries are not taxable because the company claimed for tax purposes depreciation and outside exploration expenditures and deferred mine development in excess of the amount charged against earnings.

Furthermore, the company and its subsidiaries had as at August 31, 1971, undepreciated capital cost of \$10,645,000 and unamortized outside exploration expenditures and deferred mine development of \$14,286,000 available for write off against possible future taxable profits.

Note 5 — Pending Legal Procedures

A) No provision has been made in the financial statements for additional taxes on capital from the Minister of Revenue of Quebec for the fiscal periods 1965-1968 which are being contested by the company. A \$100,000 Province of Quebec bond has been deposited as a guarantee for the above mentioned claims as well as those of a similar nature against the companies which are now part of Sullivan Mining Group Ltd.

B) Legal proceedings have been instituted against the company whereby the plaintiffs are claiming 4/5 of the 340,000 escrowed shares of Sullipek Mines Inc. to be issued and allotted to Sullivan Mining Group Ltd. and alternatively failing delivery of the claimed shares, the plaintiffs have claimed the sum of \$1,000,000 of damages against Sullivan Mining Group Ltd. This litigation has arisen from an option granted by the Company to Terra Nova Explorations Ltd. on certain claims situated in the Gaspé area of the Province of Quebec. These proceedings have been contested and in the opinion of the company's counsel they are ill-founded in fact and in law.

Note 6 — D'Estrie Mining Company Ltd.

The pre-production expenditures have not been amortized and no depreciation was calculated on the fixed assets during the year because the company had no mining operations: the mine is in a period of mine development. However, revenue from metals recovered, less cost of realization and expenses incurred for the treatment of the diluted ore has been included in combined income.

Note 7 — Weedon Mines Ltd.

Management of the company submitted an application to the Income Tax Departments for its thirty-six months' income tax exemption to be effective as of March 1, 1971.

Depreciation of fixed assets has been charged against earnings from March 1, 1971. Pre-milling and deferred development expenditures have been amortized at rates based on the total estimated ore reserves of the property.

Note 8 — Nigadoo River Mines Limited

The thirty-six months' tax exemption period ended February 1, 1971.

The stope preparation expense and mining expense amounting to \$326,430 have been reclassified as at August 31, 1970 so as to correspond to their classification as at August 31, 1971.

Stope preparation expense deferred for the year ended August 31, 1971 has been amortized at a rate of \$1.25 per ton milled, if the same method had been applied for the year ended August 31, 1970, the cost of production would have been increased by approximately \$75,000.

Note 9

Certain accounts have been reclassified in the financial statements as at August 31, 1970 so as to correspond with their classification as at August 31, 1971.

East Sullivan Mines Limited

(No Personal Liability)

(Incorporated under the Quebec Mining Companies' Act)

BALANCE SHEET As at August 31, 1971

(With corresponding figures as at August 31, 1970)

STATEMENT 1

ASSETS

	August 31, 1971	August 31, 1971
CURRENT ASSETS		
Cash	\$ 33,830	\$ 25,640
Loan receivable from subsidiary company	440,000	425,000
Accrued interest	233	57
Recoverable income tax	500	500
	<u>474,563</u>	<u>451,197</u>
INVESTMENT IN SUBSIDIARY COMPANY AT COST — (Note 1)		
4,675,000 shares Sullivan Mining Group Ltd. (market value \$13,791,250) ...	13,143,279	13,143,279
MINING CLAIMS	200	200
	<u>\$13,618,042</u>	<u>\$13,594,676</u>

LIABILITIES

CURRENT LIABILITIES		
Accounts payable	\$ 8,482	\$ 419
CAPITAL STOCK		
Authorized, issued and fully paid		
4,675,000 shares without par value	4,250,000	4,250,000
Contributed surplus — Premium on shares issued	700,503	700,503
Retained earnings — Statement 3	8,659,057	8,643,754
SHAREHOLDERS' EQUITY	<u>13,609,560</u>	<u>13,594,257</u>
	<u>\$13,618,042</u>	<u>\$13,594,676</u>

Approved on behalf of the Board of Directors:

J. JACQUES BEAUCHEMIN

LUCIEN C. BÉLIVEAU

STATEMENT OF EARNINGS

For the year ended August 31, 1971

(With corresponding figures as at August 31, 1970)

STATEMENT 2

	August 31, 1971	August 31, 1970
INCOME		
Dividends received from subsidiary company	\$ 1,168,747	\$ 2,337,493
Interest	40,706	37,991
	<u>1,209,453</u>	<u>2,375,484</u>
DEDUCT		
Administration expenses — net	25,400	35,218
NET EARNINGS, carried to retained earnings (Statement 3)	<u>\$ 1,184,053</u>	<u>\$ 2,340,266</u>

STATEMENT OF RETAINED EARNINGS

For the year ended August 31, 1971

(With corresponding figures as at August 31, 1970)

STATEMENT 3

	August 31, 1971	August 31, 1970
Balance at beginning of year	\$ 8,643,754	\$ 8,640,988
ADD		
Net earnings for the year as per Statement 2	<u>1,184,053</u>	<u>2,340,266</u>
	<u>9,827,807</u>	<u>10,981,254</u>
DEDUCT		
Dividends paid	<u>1,168,750</u>	<u>2,337,500</u>
Balance at end of year	<u>\$ 8,659,057</u>	<u>\$ 8,643,754</u>

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

For the year ended August 31, 1971

(With corresponding figures as at August 31, 1970)

STATEMENT 4

	August 31, 1971	August 31, 1970
Working capital at beginning of year	\$ 450,778	\$ 448,012
SOURCE OF FUNDS		
Net earnings for the year	<u>1,184,053</u>	<u>2,340,266</u>
APPLICATION OF FUNDS		
Dividends paid	<u>1,168,750</u>	<u>2,337,500</u>
Increase in working capital	<u>15,303</u>	<u>2,766</u>
Working capital at end of year	<u>\$ 466,081</u>	<u>\$ 450,778</u>

Notes to Financial Statements

As at August 31, 1971

Note 1

The accounts of the subsidiary Sullivan Mining Group Ltd., have not been consolidated because of the substantial minority interest. It is the opinion of management that a more meaningful appraisal of its financial condition may be obtained from the attached financial statements together with the supplemental information contained in Note 2 and in the consolidated financial statements of Sullivan Mining Group Ltd. and combined financial statements of East Sullivan Mines Limited and Sullivan Mining Group Ltd. These latter statements are included in the 1971 annual report to the shareholders.

Note 2

The company owns 4,675,000 of its subsidiary, Sullivan Mining Group Ltd., representing 55.6% of the outstanding capital stock. This investment is carried at cost and the income of the subsidiary is included in the accounts only to the extent of dividends received. The subsidiary owns 39.1% of the outstanding capital stock of the company.

Note 3 — Contingent Liability

No provision has been made in the financial statements for assessments for additional taxes on capital from the Minister of Revenue of Quebec for the fiscal periods 1965-1968 amounting to \$20,423 which are being contested by the Company.

Auditors' Report

To the Shareholders,
East Sullivan Mines Limited,
(No Personal Liability)

We have examined the balance sheet of East Sullivan Mines Limited (No Personal Liability) as at August 31, 1971 and the statements of earnings, retained earnings and of source and application of funds for the year ended on that date and have obtained all the information and explanations we have required. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion and according to the best of our information and the explanations given to us and as shown by the books of the company, these financial statements, when read with the three (3) notes related thereto, present fairly the financial position of the company as at August 31, 1971 and the results of its operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

October 4, 1971

MAHEU, NOËL, ANDERSON, VALIQUETTE & ASSOCIÉS
Chartered Accountants



CUPRA



WEEDON

